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INFO OCT-01 EUR-25 EA-11 ISO-00 SPC-03 SAM- 01 AID-20 EB-11

NSC-10 RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01

CEA-02 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 L-03 SSO-00 NSCE-00 USIE-00

INT-08 INRE-00 PA-04 PRS-01 /190 R

DRAFTED BY TREAS:GKOPITZ:ARA/BC/C:DERBE:BJD

APPROVED BY ARA:HWSHLAUDEMAN

EB/IFD:SWEINTRAUB (DRAFT)

ARA/BC:JEKARKASHIAN (DRAFT)

AA/LA:HKLEINE (DRAFT)

EUR/RPE:FKINNELLY (DRAFT)

EA/J:WPIEZ (DRAFT)

TREAS:RLARSEN (DRAFT)

AID/PPC/PDA/TP:JDEMELO (DRAFT)

L/ARA:DGANTZ (DRAFT)

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TO AMEMBASSY BONN IMMEDIATE

AMEMBASSY BERN IMMEDIATE

AMEMBASSY BRUSSELS IMMEDIATE

AMEMBASSY *OPENHAGEN IMMEDIATE

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AMEMBASSY THE HAGUE IMMEDIATE

AMEMBASSY TOKYO IMMEDIATE

INFO AMEMBASSY OSLO PRIORITY

AMEMBASSY SANTIAGO PRIORITY

AMEMBASSY STOCKHOLM PRIORITY

AMEMBASSY ROME PRIORITY

USMISSION OECD PARIS PRIORITY

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E.O. 11652:GDS

TAGS: EFIN

SUBJECT; PARIS CLUB MEETING ON CHILE DEBT RESCHEDULING

REFS: (A) OECD/PARIS 3980; (B) ROME 1836

PARIS PASS TO BENEDICK C/O USG DELEGATION PA*ISTAN-
BANGLADESH RESCHEDULING

1. FOLLOWING PROVIDED FOR USE AS APPROPRIATE.

A. ECONOMIC CONDITIONS. IN LAST QUARTER OF 1973, LARGE COPPER MINES OUTPUT INCREASED TO 70,000 M.T. MONTHLY AVERAGE, COMPARED WITH 45,000 M.T. AVERAGE IN FIRST 9 MONTHS.* WITH A L-TIME HIGH COPPER PRICES DURING THIS PERIOD, EXPORT REVENUES ROSE CONSIDERABLY FOR YEAR. RATE OF INFLATION WAS REDUCED TO 5.7 PERCENT IN NOVEMBER AND 4.7 PERCENT IN DECEMBER, WHICH HELD ANNUAL 1973 RATE TO 650 PERCENT. ALSO, NEW TAX MEASURES ON COPPER PRODUCTION, GASOLINE, PROPERTY AND INCOME SHOULD REDUCE CONSIDERABLY BUDGETARY DEFICIT IN 1974. IN ADDITION, CHILE HAS AGREED TO STRINGENT DOMESTIC AND EXTERNAL SHORT AND MEDIUM TERM DEBT LIMITATIONS DURING 1974 UNDER IMF STANDBY. DESPITE THESE MEASURES, CHILEAN ECONOMY REMAINS IN PRECARIOUS CONDITION.

B. NON-USG CREDITOR ATTITUDES. FROM JAN. 30-FEB. 5 REVIEW OF CHILEAN ECONOMY BY THE INTER-AMERICAN COMMITTEE OF THE ALLIANCE FOR PROGRESS (CIAP), TO WHICH PARIS CLUB COUNTRIES WERE INVITED AS OBSERVERS, AND FROM OTHER SOURCES, WE HAVE FOLLOWING IMPRESSIONS OF OTHER CREDITORS' ATTITUDES. GERMAN DELEGATION APPARENTLY WILL ATTEND PARIS CLUB SESSION WITHOUT INSTRUCTIONS FOR SIGNING FINAL AGREEMENT, BUT WITH INTENTION TO RECONVENE AT NEW MEETING TWO WEEKS LATER. BELGIUM SEEMS TO GO ALONG WITH GERMAN VIEW ON NEED TO MEET AGAIN BEFORE SIGNING. CANADA EXPRESSED STRONG INTEREST IN ARRIVING AT PROMPT PARIS CLUB AGREEMENT (POSSIBLY AT FEBRUARY MEETING) AND PROVIDING GENEROUS TERMS, SO THAT CHILEANS CAN CONCENTRATE ON RECOVERY. JAPAN
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INTENDS TO TAKE "POSITIVE" STANCE IN PARIS, BUT WILL PROPOSE LIMITING RESCHEDULING TO 85-90 PERCENT. FRANCE WILL REPORTEDLY SEEK TO OBTAIN COMMERCIAL TERMS, HOLDING RESCHEDULING TO 80 PERCENT *T MOST, AS EXPLAINED REFTTEL (A). SPANIARDS WILL BE DISPOSED TO GRANT GENEROUS TERMS, WHICH THEY FOLLOW IN ALL DEBT RESCHEDULING EXERCISES AS A MATTER OF GENERAL POLICY. ITALY APPARENTLY WILL NOT PARTICIPATE AT THIS PARIS CLUB MEETING EITHER AS MEMBER OR

OBSERVER, AS REPORTED REFTEL (B).

2. EMBASSY IS REQUESTED TO CONVEY FOLLOWING POINTS AND MAY DRAW ON BACKGROUND ABOVE CONCERNING FEBRUARY 21-22 PARIS CLUB MEETING IN DISCUSSIONS WITH APPROPRIATE HOST GOVERNMENT OFFICIALS.

A. AT LAST PARIS CLUB MEETING, IN JULY 1973, CHILE REQUESTED 95 PERCENT RESCHEDULING OF 1973-74 DEBT SERVICE TO ALLEVIATE PRESSURE ON ITS INTERNATIONAL LIQUIDITY POSITION, BUT REJECTED AN ECONOMIC STABILIZATION PROGRAM UNDER IMF STANDBY. AT THAT TIME PARIS CLUB AGREED TO CONSIDER RESCHEDULING AFTER CHILE HAD TAKEN ITS OWN MEASURES TO STABILIZE ECONOMY AND IMF EVALUATED THEIR EFFECTIVENESS.

B. IN NOVEMBER, NEW CHILEAN GOVERNMENT WORKED OUT TIGHT STABILIZATION PROGRAM WITH IMF MISSION VISITING SANTIAGO. IMMEDIATELY, CHILE BEGAN IMPLEMENTING THAT PROGRAM, GAINING UNANIMOUS IMF APPROVAL OF STANDBY ARRANGEMENT ON JANUARY 30. THUS, CHILE HAS NOW COMPLIED WITH MAJOR RECOMMENDATION OF PARIS CLUB.

C. IN ADDITION, CHILE HAS MET ANOTHER CONCERN OF PARIS CLUB IN GENERAL AND OF USG IN PARTICULAR BY INDICATING WILLINGNESS TO COMPLY WITH ARTICLE 4 OF 1972 PARIS CLUB AGREEMENT, AND HAS PLEDGED TO HONOR ALL INTERNATIONAL OBLIGATIONS AND TO ENGAGE IN NEGOTIATIONS WITH THE COPPER COMPANIES TOWARD SOLUTION OF COMPENSATION ISSUE. IN DECEMBER, NEWLY APPOINTED CHILEAN COPPER NEGOTIATOR, JULIO PHILIPPI, ESTABLISHED CONTACT WITH COPPER COMPANY

REPRESENTATIVES. AT END OF JANUARY, PHILIPPI BEGAN ACTUAL

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NEGOTIATIONS WITH COMPANY EXECUTIVES IN THE U.S. WE ARE HOPEFUL THAT THESE DISCUSSIONS WILL LEAD TO SETTLEMENT OF THE COMPENSATION ISSUE AND WE INTEND TO FOLLOW CLOSELY FURTHER PROGRESS IN THIS AREA. IN LIGHT OF FOREGOING IMPROVEMENTS IN CHILEAN SITUATION, USG SIGNED BILATERAL AGREEMENT COVERING 1972 DEBT ON FEBRUARY 6, 1974.

D. IMF ESTIMATES THAT CHILE'S 1974 FOREIGN EXCHANGE GAP WILL BE AROUND 115 MILLION DOLLARS, AFTER ALLOWING FOR IMF CREDITS OF DOLS 95 MILLION EXTENDED UNDER STANDBY, AND ASSUMING FULL RELIEF ON RENEGOTIABLE 1973-74 DEBT SERVICE. UPON ADJUSTMENT FOR RECENT RISE IN OIL IMPORT PRICES, THE GAP MAY REACH DOLS 400 MILLION. BOTH IMF REPORT AND CIAP COUNTRY REVIEW SUGGEST THAT CHILE BE PROVIDED 100 PERCENT RELIEF ON OVER 500 MILLION DOLLARS IN

RENEGOTIABLE DEBT, IN WHICH CASE CHILE WILL STILL HAVE TO DISBURSE ABOUT 200 MILLION DOLLARS IN NONRENEGOTIABLE DEBT SERVICES. HOWEVER, IT SHOULD BE NOTED THAT CHILE WILL CONTINUE TO RECEIVE EFFECTIVE RELIEF ON ALMOST THE ENTIRE 700 MILLION DOLLARS IN MATURITIES UNTIL 1973-74 DEBT RESCHEDULING AGREEMENT IS REACHED.

E. IN VIEW OF THE MAGNITUDE OF CHILE'S BALANCE OF PAYMENTS DEFICIT, AND THE RESOLVE OF GOC TO ADHERE TO IMF APPROVED STABILIZATION PROGRAM, AND ITS ATTITUDE TOWARD THE COMPENSATION ISSUE, THE USG IS WILLING TO CONSIDER IMF AND CIAP SUGGESTIONS ON REQUIRED DEBT RELIEF. WE BELIEVE THIS TO BE A PRAGMATIC APPROACH TO A PROBLEM THAT MUST BE RESOLVED ON ECONOMIC MERITS IN ORDER TO PROTECT THE LONG-TERM INTEREST OF THE CREDITOR COUNTRIES.

F. IN ORDER TO EXPEDITE CHILEAN PAYMENT OF NON-RENEGOTIABLE DEBT SERVICE TO CREDITOR COUNTRIES, AND GIVEN IMPLEMENTATION OF STABILIZATION PROGRAM AS WELL AS NEED TO RESTORE CHILE'S CREDIT RATING TO HELP STABILIZATION PROGRAM WORK, PROMPT MULTILATERAL DEBT RESCHEDULING AGREEMENT IS NECESSARY. THUS, IF REQUIR
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